REPORT TO SHAREHOLDERS

Third quarter

Nine-month period ended November 30, 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS

Third quarter ended November 30, 2022

HIGHLIGHTS[1]

- Sales for the quarter amounted to $95.2 million, a significant improvement of $10.2 million or 12.0% compared to the previous quarter of the current fiscal year, but a decrease of $14.7 million or 13.4% compared to the third quarter of the previous fiscal year. The decrease in sales for the quarter compared to the prior year is partly due to the weakened euro average rate against the U.S. dollar combined with lower sales achieved by the Company's Italian Oil & Gas operations, partly due to a decrease and timing of orders recorded by the subsidiary in prior periods as well as a strong shipment performance in the prior year, resulting mostly from a large order.
- Gross profit for the quarter amounted to $29.0 million or 30.4%, a significant improvement of $5.5 million or 280 basis points compared to the second quarter of the current fiscal year, but a decrease compared to last year's $35.9 million or 32.6%. Noteworthy is that the gross profit for the nine-month period of the previous year was 30.1%, net of government subsidies related to Covid-19.
- Net income[2] of $2.7 million and EBITDA[3] of $6.1 million for the quarter, a significant improvement compared to the prior quarter's net loss[2] of $3.2 million and EBITDA[3] of $1.4 million, but a decrease compared to a net income[2] of $4.5 million and EBITDA[3] of $13.3 million last year. The decrease in EBITDA[3] is primarily attributable to the previously mentioned reduction in gross profit partially offset by a decrease in administration costs in the quarter.
- Order backlog[3] remains strong at $488.3 million, a decrease of $12.9 million or 2.6% since the beginning of the year which is primarily attributable to the weakening of the euro spot rate against the U.S. dollar and lower upstream oil and gas net new orders ("bookings")[3] for the nine-month period. The portion of the current backlog[3] deliverable in the next twelve months slightly increased since the beginning of the year to $336.2 million primarily due to customer and shipment delays encountered in previous quarters and decreased slightly from $347.2 million because of the strong shipments in the current quarter when compared to the beginning of the quarter.
- Bookings[3] of $99.2 million for the quarter, an increase of $10.7 million or 12.1% compared to last year. The increase in bookings[3] compared to last year resulted mainly from large marine orders recorded in the Company's North American operations. The Company's book-to-bill ratio[3] for the quarter and the nine-month period was favorable at 1.04.
- The Company's net cash amounted to $29.3 million at the end of the quarter, stable versus the last quarter, but a decrease of $24.2 million since the beginning of the fiscal year. The decrease in net cash for the fiscal year is primarily attributable to the lower net income[2], combined with unfavorable non-cash working capital items and the ongoing repayment of long-term debt. The overall available liquidity remains strong with $137.6 million of available cash-on-hand and facilities.

[1] *All dollar amounts are denominated in U.S. dollars.*
[2] *Net income or loss refer to net income or loss attributable to Subordinate and Multiple Voting Shares*
[3] *Non-IFRS and supplementary financial measures – additional specifications at the end of this report*

The following discussion provides an analysis of the consolidated operating results and financial position of Velan Inc. ("the Company") for the quarter ended November 30, 2022. This MD&A should be read in conjunction with the Company's audited consolidated financial statements for the years ended February 28, 2022 and 2021. The Company's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS"). The significant accounting policies upon which these consolidated financial statements have been prepared are detailed in Note 2 of the Company's audited consolidated financial statements. All foreign currency transactions, balances and overseas operations have been converted to U.S. dollars, the Company's reporting currency. This MD&A was approved by the Board of Directors of the Company on January 11, 2023. Additional information relating to the Company, including the Annual Information Form and Proxy Information Circular, can be found on SEDAR at **www.sedar.com**.

NON-IFRS AND SUPPLEMENTARY FINANCIAL MEASURES

In this MD&A, the Company has presented measures of performance or financial condition which are not defined under IFRS ("non-IFRS measures") and are, therefore, unlikely to be comparable to similar measures presented by other companies. These measures are used by management in assessing the operating results and financial condition of the Company and are reconciled with the performance measures defined under IFRS. Reconciliations of these amounts can be found at the end of this report. The Company has also presented supplementary financial measures which are defined at the end of this report.

FORWARD-LOOKING INFORMATION

This MD&A may include forward-looking statements, which generally contain words like "should", "believe", "anticipate", "plan", "may", "will", "expect", "intend", "continue" or "estimate" or the negatives of these terms or variations of them or similar expressions, all of which are subject to risks and uncertainties. These risks and uncertainties are disclosed in the Company's filings with the appropriate securities commissions. While these statements are based on management's assumptions regarding historical trends, current conditions and expected future developments, as well as other factors that it believes are reasonable and appropriate in the circumstances, no forward-looking statement can be guaranteed and actual future results may differ materially from those expressed herein. The Company disclaims any intention or obligation to update or revise any forward-looking statements contained herein whether as a result of new information, future events or otherwise, except as required by the applicable securities laws. The forward-looking statements contained in this report are expressly qualified by this cautionary statement.

ABOUT VELAN

The Company designs, manufactures and markets on a worldwide basis a broad range of industrial valves for use in most industry applications including power generation, oil and gas, refining and petrochemicals, chemicals, LNG and cryogenics, pulp and paper, geothermal processes and shipbuilding. The Company is a world leader in steel industrial valves operating 12 manufacturing plants worldwide with 1,664 employees. The Company's head office is located in Montreal, Canada. The Company's business strategy is to design, manufacture, and market new and innovative valves with emphasis on quality, safety, ease of operation, and long service life. The Company's strategic goals include, but are not limited to, customer-driven operational excellence and margin improvements, accelerated growth through increased focus on key target markets where the Company has distinct competitive advantages and continuously improving and modernizing its systems and processes.

The consolidated financial statements of the Company include the North American operations comprising two manufacturing plants in Canada, as well as one manufacturing plant and one distribution facility in the U.S. Significant overseas operations include manufacturing plants in France, Italy, Portugal, Korea, Taiwan, India, and China. The Company's operations also include a sales operation in Germany.

RESULTS OF OPERATIONS

(unless otherwise noted, all amounts are in U.S. dollars and all comparisons are to the third quarter of the last fiscal year)

	Three-month periods ended			Nine-month periods ended		
(thousands)	**November 30, 2022**	**November 30, 2021**	*Variance*	**November 30, 2022**	**November 30, 2021**	*Variance*
Sales	$95,229	$109,971	*(14,742)*	$255,288	$286,393	*(31,105)*
Gross profit	28,965	35,861	*(6,896)*	72,520	87,246	*(14,726)*
Administration costs	25,428	26,436	*(1,008)*	75,918	74,192	*1,726*
Income taxes	350	5,227	*(4,877)*	3,943	8,129	*(4,186)*
Net income (loss)[1]	2,739	4,507	*(1,768)*	(8,289)	4,449	*(12,738)*
EBITDA[2]	6,136	13,291	*(7,155)*	4,623	23,007	*(18,384)*
Bookings[2]	99,150	88,430	*10,720*	266,091	286,354	*(20,263)*
Period ending backlog[2] of orders				488,348	542,961	*(54,613)*
(as a percentage of sales)						
Gross profit	30.4%	32.6%	*-220 bpts*	28.4%	30.5%	*-210 bpts*
(in dollars per share)						
Net income (loss)[1] per share – basic and diluted	0.13	0.21	*(0.08)*	(0.38)	0.21	*(0.59)*
EBITDA[2] per share – basic and diluted	0.28	0.62	*(0.34)*	0.21	1.07	*(0.86)*

Backlog[2]

	As at		
(thousands)	**November 30, 2022**	**February 28, 2022**	**November 30, 2021**
Backlog[2]	488,348	501,224	542,961
For delivery within the next twelve months	336,207	321,860	350,517
For delivery beyond the next twelve months	152,141	179,364	192,444
Percentage – beyond the next twelve months	31.2%	35.8%	35.4%

The total backlog[2] decreased by $12.9 million or 2.6% since the beginning of the fiscal year, settling at $488.3 million at the end of the quarter. The decrease in backlog[2] is primarily attributable to the weakening of the euro spot rate against the U.S. dollar since the beginning of the fiscal year which represented $22.2 million for the nine-month period. The decrease since the beginning of the fiscal year was partially offset by a positive book-to-bill ratio[2] of 1.04 as a result of bookings[2] outpacing sales.

[1] *Net income or loss refer to net income or loss attributable to Subordinate and Multiple Voting Shares*
[2] *Non-IFRS and supplementary financial measures – more information at the end of this report*

Bookings[1]

Bookings[1] for the quarter amounted to $99.2 million, an increase of $10.7 million or 12.1% compared to the third quarter of last year. Bookings[1] for the nine-month period amounted to $266.1 million, a decrease of $20.3 million or 7.1% compared to the prior fiscal year. The weakening of the euro average rate against the U.S. dollar on order bookings[1] for the Company's European operations resulted in a negative impact of $5.1 million in the third quarter and $13.1 million on the nine-month period compared to the prior year. Additionally, the decrease in bookings[1] for the nine-month period is also attributable to lower large orders recorded in the Company's Italian and Portuguese operations. The decrease for the nine-month period was partially offset by a strong bookings[1] quarter from the Company's North American operations which recorded significant marine orders. The decrease for both periods is also attributable to the disposal of the Company's Korean foundry at the end of the previous fiscal year. The Korean foundry had recorded $1.2 million of bookings[1] in the second quarter of the previous fiscal year and $5.5 million for the nine-month period of the same year.

Sales

Sales amounted to $95.2 million for the quarter, decreasing by $14.7 million or 13.4% compared to the same quarter last year. Sales for the nine-month period totaled $255.3 million, a decrease of $31.1 or 10.9% compared to the last fiscal year. The negative effect of the weakening of the euro average rate against the U.S. dollar on sales for the quarter amounted to $4.9 million, and $15.9 million for the nine-month period compared to the third quarter and first nine-month of last fiscal year. The decrease in sales for both periods is also attributable to the delivery of significant orders by the Company's Italian operations destined to the upstream oil and gas sector in the prior fiscal year combined with lower bookings and also the timing effect thereof. Finally, the decrease for the quarter was partially offset by the recognition of a $10.9 million order which could not be recorded in the previous quarter due to logistics delays.

Gross profit

Gross profit for the quarter amounted to $29.0 million, a decrease of $6.9 million or 19.2% compared to the same quarter last year. Gross profit for the nine-month period amounted to $72.5 million, a decrease of $14.7 million or 16.9% compared to the same period last year. The gross profit percentage for the quarter of 30.4% was a decrease of 220 basis points compared to last year's third quarter, while the gross profit percentage for the nine-month period of 28.4% represented a decrease of 210 basis points compared to the same period last year. The gross profit in the prior year was positively impacted by the recording of $1.1 million for the nine-month period of Covid-19 subsidies, which when removed, resulted in Gross Profit of 30.1% for the nine-month period. The decrease in gross profit percentage for both periods is primarily attributable to the lower sales volume which impacted the absorption of fixed production overhead costs. The decrease in gross profit percentage was also due to the unfavorable effect of the product mix delivered. Additionally, The Company's gross profit for the quarter was negatively impacted by unfavorable foreign exchange movements, when compared to similar movements from the previous year, which were primarily made up of unrealized foreign exchange translations related to the fluctuation of the U.S. dollar against the euro and Canadian dollar. These foreign exchange movements were favorable in the nine-month period.

Administration cost

Administration costs for the quarter amounted to $25.4 million, a decrease of $1.0 million or 3.8%. Administration costs for the nine-month period amounted to $75.9 million, an increase of $1.7 million or 2.3%. Administration costs for both periods were negatively affected by an increase in the Company's long-term asbestos provision as well as higher outbound freight costs caused by the current global supply chain issues which are impacting freight costs and

[1] *Non-IFRS and supplementary financial measures – more information at the end of this report*

shipping delays. The administration costs in the prior year benefited from the recording of $0.9 million for the nine-month period of CEWS. The movement for both periods were favorably impacted by lower sales commissions recorded on the delivery of large orders and a general reduction in remaining administration costs.

EBITDA[1]

EBITDA[1] for the quarter amounted to $6.1 million or $0.28 per share compared to $13.3 million or $0.62 per share last year. EBITDA[1] for the nine-month period amounted to $4.6 million or $0.21 per share compared to $23.0 million or $1.07 per share last year. The unfavorable movements in EBITDA[1] for both periods are primarily attributable to the previously explained decrease in gross profit combined with an increase in administration costs for the nine-month period. The decrease in EBITDA[1] for the quarter was partially offset by a reduction in administration costs. A portion of the effects on the EBITDA[1] caused by the weakening of the euro against the U.S. dollar were hedged by the company.

Income taxes

	Three-month periods ended			
(thousands, excluding percentages)	**November 30, 2022**		**November 30, 2021**	
	$	%	$	%
Income tax at statutory rate	826	26.5	2,487	26.5
Tax effects of:				
Difference in statutory tax rates in foreign jurisdictions	(50)	(1.6)	372	4.0
Non-deductible (taxable) foreign exchange losses (gains)	(394)	(12.7)	80	0.8
Unrecognized tax losses	306	9.8	2,069	22.1
Benefit attributable to a financing structure	(60)	(1.9)	(63)	(0.7)
Other differences	(278)	(8.9)	282	3.0
Income tax expense	**350**	**11.2**	**5,227**	**55.7**

	Nine-month periods ended			
(thousands, excluding percentages)	**November 30, 2022**		**November 30, 2021**	
	$	%	$	%
Income tax at statutory rate	(1,140)	26.5	3,158	26.5
Tax effects of:				
Difference in statutory tax rates in foreign jurisdictions	50	(1.2)	551	4.6
Non-deductible foreign exchange losses	714	(16.6)	151	1.3
Unrecognized tax losses	4,706	(109.4)	4,166	35.0
Benefit attributable to a financing structure	(190)	4.4	(195)	(1.7)
Other differences	(197)	4.6	298	2.5
Income tax expense	**3,943**	**(91.7)**	**8,129**	**68.2**

[1] *Non-IFRS and supplementary financial measures – more information at the end of this report*

Net income (loss)[1]

Net income[1] amounted to $2.7 million or $0.13 per share compared to $4.5 million or $0.21 per share last year. Net loss[1] for the nine-month period amounted to $8.3 million or $0.38 per share compared to a net income[1] of $4.4 million or $0.21 per share last year. The negative movement in the Company's results was primarily attributable to the same factors as explained in the EBITDA[2] section, partially offset by favorable movements in income taxes and in finance costs for both periods.

LIQUIDITY AND CAPITAL RESOURCES – a discussion of liquidity risk, credit facilities, cash flows and proposed transactions *(unless otherwise noted, all dollar amounts are denominated in U.S. dollars)*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company manages its liquidity risk by continually monitoring its future cash requirements. Cash flow forecasting is performed in the operating entities and aggregated by the Company's corporate finance team. The Company's policy is to maintain sufficient cash and cash equivalents and available credit facilities in order to meet its present and future operational needs.

On November 30, 2022, the Company's order backlog[2] was $488.3 million and its net cash plus unused credit facilities amounted to $137.6 million, which it believes, along with future cash flows generated from operations, is sufficient to meet its financial obligations, increase its capacity, satisfy its working capital requirements, and execute on its business strategy. The Company also believes that its unused credit facilities are sufficient to navigate through lingering COVID-19 impacts and the conflict in Ukraine. However, there can be no assurance that the risk of another sharp downturn in the economy will not materially adversely affect the Company's results of operations or financial condition. As at November 30, 2022, the Company is in compliance with all covenants related to its debt and credit facilities.

As part of managing its liquidity risk, the Company also monitors the financial health of its key suppliers and customers. As at November 30, 2022, the Company does not see undue risk as a result of this assessment.

Cash flows - quarter and nine-month period ended November 30, 2022

(unless otherwise noted, all amounts are in U.S. dollars and all comparisons are to same period in the prior fiscal year)

The Company's changes in net cash were as follows:

	Three-month periods ended		Nine-month periods ended	
(thousands)	**November 30, 2022**	**November 30, 2021**	**November 30, 2022**	**November 30, 2021**
Net Cash – Beginning of period	29,725	68,131	53,465	62,953
Cash provided (used) by operating activities	(3,378)	7,564	(17,967)	9,992
Cash provided (used) by investing activities	(1,486)	8,432	(5,344)	5,740
Cash provided (used) by financing activities	3,960	(13,786)	2,230	(7,052)
Effect of exchange rate differences on cash	490	(2,360)	(3,073)	(3,652)
Change in net cash – held for sale	-	(2,144)	-	(2,144)
Net Cash – End of period	**29,311**	**65,837**	**29,311**	**65,837**

[1] *Net income or loss refer to net income or loss attributable to Subordinate and Multiple Voting Shares*
[2] *Non-IFRS and supplementary financial measures – more information at the end of this report*

Operating activities

The unfavorable movement in cash used by operating activities for the quarter and the nine-month period is primarily attributable to the decrease in EBITDA[1] combined with unfavorable movements in non-cash working capital items.

The changes in non-cash working capital items were as follow:

	Three-month periods ended		Nine-month periods ended	
(thousands)	**November 30, 2022**	**November 30, 2021**	**November 30, 2022**	**November 30, 2021**
Accounts receivable	(3,483)	11,677	(4,087)	18,865
Income taxes recoverable	(1,753)	317	(4,443)	506
Inventories	1,762	4,681	(2,138)	(33,807)
Deposits and prepaid expenses	(1,145)	699	(776)	(775)
Accounts payable and accrued liabilities	8,324	(7,263)	1,901	5,078
Income taxes payable	(192)	891	(1,979)	595
Customer deposits	(7,597)	(8,808)	1,910	10,145
Provisions	(501)	(3,706)	(2,871)	(5,378)
Changes in non-cash working capital items	**(4,585)**	**(1,512)**	**(12,483)**	**(4,771)**

The negative non-cash working capital movements for the quarter ended November 30, 2022 consisted primarily of:

- An increase in accounts receivable primarily due to the higher proportion of sales that occurred at the tail end of the quarter; and
- A lower amount of customer deposits collected on certain large orders by the Company's North American operations.

The positive non-cash working capital movements for the quarter ended November 30, 2022 consisted primarily of an increase in accounts payable and accrued liabilities due to the timing of payments as well as the increased focused by the Company on working capital management.

The negative non-cash working capital movements for the nine-month period ended November 30, 2022 consisted primarily of:

- An increase in accounts receivable for the same reason as explained above.
- An increase in income taxes recoverable primarily due to installments payments as well as required deposits made to tax authorities regarding various tax assessments.
- An increase in inventories primarily in reaction to the delivery schedule of certain large orders.
- A decrease in the Company's legal provision, primarily due to settlement payments related to outstanding asbestos claims.

Investing activities

Cash used by investing activities for the quarter was primarily due to additions to property, plant and equipment and intangible assets. Cash used by investing activities for the nine-month period was primarily due to an increase in short-term investments and additions to property, plant and equipment and intangible assets. The fluctuation in

[1] *Non-IFRS and supplementary financial measures – more information at the end of this report*

additions to property, plant and equipment for the current quarter is primarily attributable to the timing of the receipts of certain equipment.

Financing activities

During the current quarter, the Company drew down $5.4 million on its revolving credit facility to fund short-term working capital needs. However, the Company continued to pay down its outstanding long-term debt. During the nine-month period, the Company's Italian operations borrowed $2.2 million in the form of unsecured bank loans, bearing annual interest between 0.67% and 0.71%, repayable quarterly and expiring in fiscal 2027.

FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, cash flow interest rate risk and fair value interest rate risk), credit risk and liquidity risk. The Company's overall financial risk management program focuses on mitigating unpredictable financial market risks and their potential adverse effects on the Company's financial performance.

The Company's financial risk management is generally carried out by the corporate finance team, based on policies approved by the Board of Directors. The identification, evaluation and hedging of the financial risks are the responsibility of the corporate finance team in conjunction with the finance teams of the Company's subsidiaries. The Company uses derivative financial instruments to hedge certain risk exposures. Use of derivative financial instruments is subject to a policy which requires that no derivative transaction be entered into for the purpose of establishing a speculative or leveraged position (the corollary being that all derivative transactions are to be entered into for risk management purposes only).

Market risk

Currency risk

Currency risk on financial instruments is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Currency risk arises when future commercial transactions and recognized assets and liabilities are denominated in a currency other than a company's functional currency. The Company has operations with different functional currencies, each of which will be exposed to currency risk based on its specific functional currency.

When possible, the Company matches cash receipts in a foreign currency with cash disbursements in that same currency. The remaining anticipated net exposure to foreign currencies is hedged. To hedge this exposure, the Company uses foreign currency derivatives, primarily foreign exchange forward contracts. These derivatives are not designated as hedges for accounting purposes.

The amounts outstanding as at November 30, 2022 and February 28, 2022 are as follows:

	Range of exchange rates		Gain (loss) (in thousands of U.S. dollars)		Notional amount (in thousands of indicated currency)	
	November 30, 2022	February 28, 2022	November 30, 2022 $	February 28, 2022 $	November 30, 2022	February 28, 2022
Foreign exchange forward contracts						
Sell US$ for CA$ - 0 to 12 months	1.27-1.28	1.27-1.28	(302)	(470)	US$12,500	US$50,000
Buy US$ for CA$ - 0 to 12 months	1.25	1.25	-	301	US$12,500	US$50,000
Sell € for US$ – 0 to 12 months	1.15	1.15	-	(90)	€3,750	€15,000
Buy € for US$ – 0 to 12 months	1.13	1.13	341	252	€3,750	€15,000

Foreign exchange forward contracts are contracts whereby the Company has the obligation to sell or buy the currencies at the strike price. The fair value of the foreign currency instruments is recorded in the consolidated statement of income and reflects the estimated amounts the Company would have paid or received to settle these contracts as at the financial position date. Unrealized gains are recorded as derivative assets and unrealized losses as derivative liabilities on the consolidated statement of financial position.

Interest rate risk

The Company's exposure to interest rate risk is related primarily to its credit facilities, long-term debt and cash and cash equivalents. Items at variable rates expose the Company to cash flow interest rate risk, and items at fixed rates expose the Company to fair value interest rate risk. The Company's long-term debt and credit facilities predominantly bear interest, and its cash and cash equivalents earn interest at variable rates. An assumed 0.5% change in interest rates would have no significant impact on the Company's net income or cash flows.

Credit risk

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises primarily from the Company's trade accounts receivable.

The Company's credit risk related to its trade accounts receivable is concentrated. As at November 30, 2022, four (February 28, 2022 – three) customers accounted for more than 5% each of its trade accounts receivable, of which one customer accounted for 16.7% (February 28, 2022 – 10.8%), and the Company's ten largest customers accounted for 69.5% (February 28, 2022 – 55.7%) of trade accounts receivable. In addition, there was two customers (November 30, 2021 – one) that accounted for more than 10% of the Company's sales.

In order to mitigate its credit risk, the Company performs a continual evaluation of its customers' credit and performs specific evaluation procedures on all its new customers. In performing its evaluation, the Company analyzes the ageing of accounts receivable, historical payment patterns, customer creditworthiness and current economic trends. A specific credit limit is established for each customer and reviewed periodically. For some trade accounts receivable, the Company may obtain security in the form of credit insurance which can be called upon if the counterparty is in default under the terms of the agreement.

The Company applies the IFRS 9 simplified approach to measure expected credit losses using a lifetime expected credit loss allowance for trade receivables. The expected credit loss rates are based on the Company's historical credit losses experienced over the last fiscal year prior to period end. The historical rates are then adjusted for current and forward-looking information on macro-economic factors affecting the Company's customers.

The Company is also exposed to credit risk relating to derivative financial instruments, cash and cash equivalents and short-term investments, which it manages by dealing with highly rated financial institutions. The Company's primary credit risk is limited to the carrying value of the trade accounts receivable and gains on derivative assets.

The table below summarizes the ageing of the trade accounts receivable as at:

	As at	
(thousands)	**November 30, 2022 $**	**February 28, 2022 $**
Current	64,647	64,689
Past due 0 to 30 days	9,433	17,995
Past due 31 to 90 days	14,172	9,248
Past due more than 90 days	16,890	16,285
	105,142	108,217
Less: Loss allowance	(474)	(509)
	104,668	107,708
Other receivables	9,579	8,126
Total accounts receivable	**114,247**	**115,834**

The table below summarizes the movement in the allowance for doubtful accounts:

	Nine-month periods ended	
(thousands)	**November 30, 2022 $**	**November 30, 2021 $**
Balance – Beginning of the year	509	1,146
Loss allowance expense	19	277
Recoveries of trade accounts receivables	(27)	(225)
Write-off of trade accounts receivable	-	(173)
Foreign exchange	(27)	(90)
Balance – End of the period	**474**	**935**

Liquidity risk – see discussion in *liquidity and capital resources* section

CERTAIN RISKS THAT COULD AFFECT OUR BUSINESS

The Company lists the various risks that could affect its business in the year-end version of its MD&A. The Company continuously monitors and evaluates such risks, with particular current focus on the current geopolitical instabilities and inflation. The Company has no changes to report as at November 30, 2022.

INTERNAL CONTROLS AND PROCEDURES

In accordance with National Instrument 52-109 – Certification of Disclosure in Issuer's Annual and Interim Filings, disclosure controls and procedures have been designed to provide reasonable assurance that the information presented in the Company's interim and annual reports to shareholders is accumulated and communicated to management on a timely basis, including the Chief Executive Officer and the Chief Financial Officer, in order for appropriate decisions to be made in regards to disclosures. Internal controls over financial reporting have also been designed to provide reasonable assurance regarding the reliability of the financial reporting and the preparation of financial statements in accordance with IFRS.

The Company did not make any changes to the design of internal controls over financial reporting during the three-month and nine-month periods ended November 30, 2022 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

CRITICAL ACCOUNTING ESTIMATES & JUDGEMENTS

The Company's financial statements are prepared in accordance with IFRS as issued by the IASB. The Company's significant accounting policies as described in notes 2 and 3 of the Company's audited consolidated financial statements are essential to understanding the Company's financial positions, results of operations and cash flows. Certain of these accounting policies require critical accounting estimates that involve complex and subjective judgments and the use of assumptions, some of which may be for matters that are inherently uncertain and susceptible to change. The assumptions and estimates used are based on parameters which are derived from the knowledge at the time of preparing the financial statements and believed to be reasonable under the circumstances. In particular, the circumstances prevailing at this time and assumptions as to the expected future development of the global and industry-specific environment were used to estimate the Company's future business performance. Where these conditions develop differently than assumed and beyond the control of the Company, the actual results may differ from those anticipated (see *Forward-looking information* section above). These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is changed. There were no significant changes made to critical accounting estimates during the past two fiscal years.

There have been no material changes from those identified in the annual MD&A.

ACCOUNTING STANDARDS AND AMENDMENTS ISSUED BUT NOT YET ADOPTED

In January 2020, the International Accounting Standards Board ("IASB") issued *Classification of Liabilities as Current or Non-current (Amendments to IAS 1)* providing a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date. The amendments in *Classification of Liabilities as Current or Non-current (Amendments to IAS 1)* affect only the presentation of liabilities in the statement of financial position, not the amount or timing of recognition of any asset, liability income or expenses, or the information that entities disclose about those items. In July 2020, the IASB published *Classification of Liabilities as Current or Non-current – Deferral of Effective Date (Amendment to IAS 1)* deferring the effective date of the January 2020 amendments to IAS 1 by one year. The amendments to IAS 1 are effective for annual reporting periods beginning on or after January 1, 2023 with earlier adoption permitted. The Company is currently evaluating the impact of these amendments on its financial statements.

SUMMARY OF QUARTERLY RESULTS

Summary financial data derived from the Company's unaudited financial statements from each of the eight most recently completed quarters are as follows:

For the quarters in months ending May, August, November and February
(in thousands of U.S. dollars, excluding per share amounts)

	Quarters ended							
	November 2022	**August 2022**	**May 2022**	**February 2022**	**November 2021**	**August 2021**	**May 2021**	**February 2021**
Sales	$95,229	$85,054	$75,005	$124,849	$109,971	$101,893	$74,529	$85,510
Net income (loss)[1]	2,739	(3,676)	(7,352)	(25,509)	4,507	5,015	(5,073)	338
Net income (loss)[1] per share								
- Basic and diluted	0.13	(0.17)	(0.34)	(1.19)	0.21	0.23	(0.24)	0.02
EBITDA[2]	6,136	1,365	(2,878)	16,592	13,291	10,657	(941)	1,648
EBITDA[2] per share								
- Basic and diluted	0.28	0.06	(0.13)	0.77	0.62	0.49	(0.04)	0.08

[1] *Net income or loss refer to net income or loss attributable to Subordinate and Multiple Voting Shares*
[2] *Non-IFRS and supplementary financial measures – more information at the end of this report*

NON-IFRS AND SUPPLEMENTARY FINANCIAL MEASURES

In this MD&A, the Company has presented measures of performance or financial condition which are not defined under IFRS ("non-IFRS measures") and are, therefore, unlikely to be comparable to similar measures presented by other companies. These measures are used by management in assessing the operating results and financial condition of the Company and are reconciled with the performance measures defined under IFRS. Company has also presented supplementary financial measures which are defined at the end of this report. Reconciliation and definition can be found below.

Earnings before interest, taxes, depreciation and amortization ("EBITDA")

	Three-month periods ended		Nine-month periods ended	
(thousands, except amount per shares)	**November 30, 2022 $**	**November 30, 2021 $**	**November 30, 2022 $**	**November 30, 2021 $**
Net income (loss)[1]	6,136	4,507	(8,289)	4,449
Adjustments for:				
Depreciation of property, plant and equipment	2,086	2,382	6,270	7,190
Amortization of intangible assets	540	556	1,664	1,565
Finance costs – net	422	619	1,036	1,674
Income taxes	349	5,227	3,942	8,129
EBITDA	**6,136**	**13,291**	**4,623**	**23,007**
EBITDA per share				
- Basic and diluted	0.28	0.62	0.21	1.07

The term "EBITDA" is defined as net income or loss attributable to Subordinate and Multiple Voting Shares plus depreciation of property, plant & equipment, plus amortization of intangible assets, plus net finance costs plus income taxes. The terms "EBITDA per share" is obtained by dividing EBITDA by the total amount of subordinate and multiple voting shares. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

Definitions of supplementary financial measures

The term "Net new orders" or "bookings" is defined as firm orders, net of cancellations, recorded by the Company during a period. Bookings are impacted by the fluctuation of foreign exchange rates for a given period. The measure provides an indication of the Company's sales operation performance for a given period as well as well as an expectation of future sales and cash flows to be achieved on these orders.

The term "backlog" is defined as the buildup of all outstanding bookings to be delivered by the Company. The Company's backlog is impacted by the fluctuation of foreign exchange rates for a given period. The measure provides an indication of the future operational challenges of the Company as well as an expectation of future sales and cash flows to be achieved on these orders.

The term "book-to-bill" is obtained by dividing bookings by sales. The measure provides an indication of the Company's performance and outlook for a given period.

The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

[1] *Net income or loss refer to net income or loss attributable to Subordinate and Multiple Voting Shares*

UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three-month and nine-month periods ended November 30, 2022

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors PricewaterhouseCoopers LLP have not reviewed the unaudited condensed interim consolidated financial statements for the three-month and nine-month periods ended November 30, 2022.

VELAN

Consolidated Statements of Financial Position

(in thousands of U.S. dollars)

	As at	
	November 30, 2022 $	February 28, 2022 $
Assets		
Current assets		
Cash and cash equivalents	31,354	54,015
Short-term investments	9,410	8,726
Accounts receivable	114,247	115,834
Income taxes recoverable	7,389	2,955
Inventories (note 6)	217,697	223,198
Deposits and prepaid expenses	7,348	6,877
Derivative assets (note 8)	341	553
	387,786	412,158
Non-current assets		
Property, plant and equipment	68,548	73,906
Intangible assets and goodwill	15,604	16,693
Deferred income taxes	4,581	4,774
Other assets	652	897
	89,385	96,270
Total assets	477,171	508,428
Liabilities		
Current liabilities		
Bank indebtedness	2,043	550
Accounts payable and accrued liabilities	78,812	80,503
Income taxes payable	1,784	3,806
Customer deposits	40,782	41,344
Provisions	14,941	18,444
Derivative liabilities (note 8)	302	560
Current portion of long-term lease liabilities	1,221	1,360
Current portion of long-term debt (note 7)	13,333	8,111
	153,218	154,678
Non-current liabilities		
Long-term lease liabilities	9,673	11,073
Long-term debt (note 7)	20,970	22,927
Income taxes payable	1,079	1,244
Deferred income taxes	4,074	4,025
Customer deposits	19,593	30,139
Provisions	16,626	13,101
Other liabilities	5,576	5,731
	77,591	88,240
Total liabilities	230,809	242,918
Total equity	246,362	265,510
Total liabilities and equity	477,171	508,428

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.

VELAN

Consolidated Statements of Income (loss)

(in thousands of U.S. dollars, excluding per share amounts)

	Three-month periods ended		Nine-month periods ended	
	November 30, 2022 $	November 30, 2021 $	November 30, 2022 $	November 30, 2021 $
Sales (note 9)	95,229	109,971	255,288	286,393
Cost of sales (notes 6)	66,264	74,110	182,768	199,147
Gross profit	28,965	35,861	72,520	87,246
Administration costs	25,428	26,436	75,918	74,192
Other expense (income)	2	(579)	(132)	(537)
Operating profit (loss)	3,535	10,004	(3,266)	13,591
Finance income	59	77	227	367
Finance costs	(479)	(696)	(1,261)	(2,041)
Finance costs – net	(420)	(619)	(1,034)	(1,674)
Income (loss) before income taxes	3,115	9,385	(4,300)	11,917
Income tax expense	350	5,227	3,943	8,129
Net income (loss) for the period	2,765	4,158	(8,243)	3,788
Net income (loss) attributable to:				
Subordinate Voting Shares and Multiple Voting Shares	**2,739**	**4,507**	**(8,289)**	**4,449**
Non-controlling interest	26	(349)	46	(661)
Net income (loss) for the period	2,765	4,158	(8,243)	3,788
Net income (loss) per Subordinate and Multiple Voting Share				
Basic and diluted	0.13	0.21	(0.38)	0.21
Dividends declared per Subordinate and Multiple Voting Share	- (CA$ -)	- (CA$ -)	0.02 (CA$0.03)	- (CA$-)
Total weighted average number of Subordinate and Multiple Voting Shares				
Basic and diluted	21,585,635	21,585,635	21,585,635	21,585,635

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements

VELAN

Consolidated Statements of Comprehensive Income (Loss)

(in thousands of U.S. dollars)

	Three-month periods ended		Nine-month periods ended	
	November 30, 2022 $	November 30, 2021 $	November 30, 2022 $	November 30, 2021 $
Comprehensive income (loss)				
Net income (loss) for the period	2,765	4,158	(8,243)	3,788
Other comprehensive income (loss)				
Foreign currency translation	3,183	(6,080)	(10,408)	(9,502)
Comprehensive income (loss)	5,948	(1,922)	(18,651)	(5,714)
Comprehensive income (loss) attributable to:				
Subordinate Voting Shares and Multiple Voting Shares	5,922	(1,559)	(18,697)	(5,007)
Non-controlling interest	26	(363)	46	(707)
Comprehensive income (loss)	5,948	(1,922)	(18,651)	(5,714)

Other comprehensive income (loss) is composed solely of items that may be reclassified subsequently to the consolidated statement of income (loss).

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.

VELAN

Consolidated Statements of Changes in Equity

(in thousands of U.S. dollars, excluding number of shares)

	Equity attributable to the Subordinate and Multiple Voting shareholders						
	Share capital	Contributed surplus	Accumulated other comprehensive loss	Retained earnings	Total	Non-controlling interest	**Total equity**
Balance - February 28, 2021	72,695	6,260	(21,007)	239,136	297,084	3,137	300,221
Net income (loss) for the period	-	-	-	4,449	4,449	(661)	3,788
Other comprehensive loss	-	-	(9,456)	-	(9,456)	(46)	(9,502)
Comprehensive income (loss)	-	-	(9,456)	4,449	(5,007)	(707)	(5,714)
Balance - November 30, 2021	72,695	6,260	(30,463)	243,585	292,077	2,430	294,507
Balance - February 28, 2022	72,695	6,260	(32,223)	218,092	264,824	686	265,510
Net income (loss) for the period	-	-	-	(8,289)	(8,289)	46	(8,243)
Other comprehensive loss	-	-	(10,408)	-	(10,408)	-	(10,408)
Comprehensive income (loss)	-	-	(10,408)	(8,289)	(18,697)	46	(18,651)
Dividends							
Multiple Voting Shares	-	-	-	(366)	(366)	-	(366)
Subordinate Voting Shares	-	-	-	(131)	(131)	-	(131)
Balance - November 30, 2022	72,695	6,260	(42,631)	209,306	245,630	732	246,362

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.

VELAN

Consolidated Statements of Cash Flow

(in thousands of U.S. dollars)

	Three-month periods ended		Nine-month periods ended	
	November 30, 2022 $	November 30, 2021 $	November 30, 2022 $	November 30, 2021 $
Cash flows from				
Operating activities				
Net income (loss) for the period	2,765	4,158	(8,243)	3,788
Adjustments to reconcile net income (loss) to cash provided (used) by operating activities (note 10)	(1,558)	4,918	2,759	10,975
Changes in non-cash working capital items (note 11)	(4,585)	(1,512)	(12,483)	(4,771)
Cash provided (used) by operating activities	(3,378)	7,564	(17,967)	9,992
Investing activities				
Short-term investments	64	(268)	(1,117)	(1,686)
Additions to property, plant and equipment	(1,449)	(1,379)	(2,985)	(4,948)
Additions to intangible assets	(107)	(520)	(1,316)	(1,330)
Proceeds on disposal of property, plant and equipment	4	10,597	44	13,729
Net change in other assets	2	2	30	(25)
Cash provided (used) by investing activities	(1,486)	8,432	(5,344)	5,740
Financing activities				
Dividends paid to Subordinate and Multiple Voting shareholders	-	-	(497)	-
Short-term bank loans	-	35	-	35
Net change in revolving credit facility	5,357	(11,872)	5,373	(5,624)
Increase in long-term debt	-	-	2,160	5,889
Repayment of long-term debt	(1,038)	(1,522)	(3,715)	(6,068)
Repayment of long-term lease liabilities	(359)	(427)	(1,091)	(1,284)
Cash provided (used) by financing activities	3,960	(13,786)	2,230	(7,052)
Effect of exchange rate differences on cash	490	(2,360)	(3,073)	(3,652)
Change in cash and cash equivalents from reclassification of cash and cash equivalents as held of sale	-	(2,144)	-	(2,144)
Net change in cash during the period	(414)	(2,294)	(24,154)	2,884
Net cash – Beginning of the period	29,725	68,131	53,465	62,953
Net cash – End of the period	29,311	65,837	29,311	65,837
Net cash is composed of:				
Cash and cash equivalents	31,354	66,687	31,354	66,687
Bank indebtedness	(2,043)	(850)	(2,043)	(850)
Net cash – End of the period	29,311	65,837	29,311	65,837
Supplementary information				
Interest paid	(242)	(526)	(450)	(1,360)
Income taxes paid	(2,802)	(1,782)	(6,799)	(3,366)

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three-month and nine-month periods ended November 30, 2022

1 General information

These unaudited condensed interim financial statements represent the consolidation of the accounts of Velan Inc. (the "Company") and its subsidiaries. The Company is an international manufacturer of industrial valves and is a public company listed on the Toronto Stock Exchange under the symbol "VLN". It was incorporated under the name Velan Engineering Ltd. on December 12, 1952 and continued under the *Canada Business Corporations Act* on February 11, 1977. It changed its name to Velan Inc. on February 20, 1981. Velan Inc. maintains its registered head office at 7007 Cote de Liesse, Montreal, Quebec, Canada, H4T 1G2. The Company's ultimate parent company is Velan Holdings Co. Ltd.

These unaudited condensed interim consolidated financial statements were approved for issue by the Company's Board of Directors on January 11, 2023.

2 Basis of preparation

These unaudited condensed interim consolidated financial statements for the three-month and nine-month periods ended November 30, 2022 have been prepared in accordance with International Financial Reporting Standards ("IFRS") in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*. These unaudited condensed interim consolidated financial statements have been prepared using the same basis of presentation, accounting policies, and methods of computation as outlined in Note 2, *Summary of significant accounting policies*, in the Company's annual consolidated financial statements for the year ended February 28, 2022, which have also been prepared in accordance with IFRS. Accordingly, these unaudited condensed interim consolidated financial statements should be read in conjunction with the Company's annual consolidated financial statements for the year ended February 28, 2022.

3 New accounting standards and amendments issued but not yet adopted

In January 2020, the International Accounting Standards Board ("IASB") issued *Classification of Liabilities as Current or Non-current (Amendments to IAS 1)* providing a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date. The amendments in *Classification of Liabilities as Current or Non-current (Amendments to IAS 1)* affect only the presentation of liabilities in the statement of financial position, not the amount or timing of recognition of any asset, liability income or expenses, or the information that entities disclose about those items. In July 2020, the IASB published *Classification of Liabilities as Current or Non-current – Deferral of Effective Date (Amendment to IAS 1)* deferring the effective date of the January 2020 amendments to IAS 1 by one year. The amendments to IAS 1 are effective for annual reporting periods beginning on or after January 1, 2023 with earlier adoption permitted. The Company is currently evaluating the impact of these amendments on its financial statements.

4 Estimates

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these unaudited condensed interim consolidated financial statements, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual consolidated financial statements for the year ended February 28, 2022.

Since December 2019, the coronavirus ("COVID-19") global pandemic has caused temporary disruptions in the Company's production and supply chain which have materially adversely affected its business and financial results. The economic slowdown triggered by the global pandemic, mainly in the oil and gas sector at the beginning of the previous fiscal year, also translated in lower non-project valve sales for the Company. More specifically, during the period of the ongoing pandemic, the Maintenance, Repair & Overhaul ("MRO") business segment of the group was most impacted. By the second half of the fiscal year-ended February 28, 2022, however, sales started to pick-up at the midpoint of the year and reached pre-covid levels by year-end.

For the three-month and nine-month periods ended November 30, 2022, consolidated sales are lower than the previous year for various reasons such as supply chain and customer related issues as well as the timing of delivery dates on open orders which should be recovered in subsequent periods. However, the Company notes that MRO sales for both periods have improved compared to the prior fiscal year, therefore hinting at a recovery from the pandemic.

Although the Company has implemented proactive measures to protect its global workforce and mitigate the numerous effects of the pandemic, given the ongoing dynamic nature of circumstances surrounding COVID-19, it is not possible to reliably estimate the length, severity and long-term impact the global pandemic may have on the Company's results, conditions and cash flows. Therefore, the COVID-19 global pandemic should still be considered a risk factor.

During the three-month and nine-month periods ended November 30, 2022, no wage subsidies were available to the Company which would have helped lower payroll costs. For the three-month period ended November 30, 2021, the company did apply for such subsidies which provided a reduction in salaries of $21 in Cost of sales and $16 in Administration costs. For the nine-month period ended November 30, 2021, the company applied for such subsidies which provided a reduction in salaries of $1,142 in Cost of sales and $905 in Administration costs.

5 Seasonality

The Company's sales are not subject to seasonality. Quarterly sales can vary based on the timing of revenue recognition on large orders.

6 Inventories

	As at	
(thousands)	**November 30, 2022 $**	**February 28, 2022 $**
Raw materials	40,298	48,381
Work in process and finished parts	141,059	136,221
Finished goods	36,340	38,596
	217,697	**223,198**

As a result of variations in the ageing of its inventories, the Company recognized a net additional inventory provision for the three-month period ended November 30, 2022 of $3,354 (November 30, 2021 - $ 1,963), including reversals of $4,034 (November 30, 2021 - $678). The Company recognized a net additional inventory provision for the nine-month period ended November 30, 2022 of $4,453 (November 30, 2021 – $5,937), including reversals of $5,442 (November 30, 2021 - $2,552).

7 Long-term debt

	As at	
(thousands)	**November 30, 2022 $**	**February 28, 2022 $**
Revolving credit facility	5,373	-
Canadian subsidiary		
Secured bank loan ($CAD 21,188; February 28, 2022 - $CAD 22,500)	15,498	17,134
French subsidiaries		
Unsecured bank loan (€2,079; February 28, 2022 - €2,943)	2,163	3,302
Italian subsidiary		
Unsecured bank loan (€4,453; February 28, 2022 - €2,869)	4,633	3,219
Unsecured state bank loan (€575; February 28, 2022 - €690)	598	774
Other	6,038	6,609
	34,303	31,038
Less: current portion	13,333	8,111
	20,970	**22,927**

As at November 30, 2022, the Company had drawn down $5,373 (February 28, 2022 – nil) on the revolving credit facility and had $4,941 (February 28, 2022 – $3,980) in the form of outstanding letters of credit and letters of guarantee on a total $47,183 (February 28, 2022 – $49,365) borrowing availability. Furthermore, as at November 30, 2022, the Company was in compliance with all of its covenants.

8 Fair value of financial instruments

The fair value hierarchy has the following levels:

- Level 1 – quoted market prices in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
- Level 3 – unobservable inputs such as inputs for the asset or liability that are not based on observable market data. The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

The fair value of financial assets and financial liabilities on the condensed interim consolidated statements of financial position are as follows:

				As at November 30, 2022
(thousands)	Total $	Level 1 $	Level 2 $	Level 3 $
Financial position classification and nature				
Assets				
Derivative assets	341	-	341	-
Liabilities				
Derivative liabilities	302	-	302	-

				As at February 28, 2022
(thousands)	Total $	Level 1 $	Level 2 $	Level 3 $
Financial position classification and nature				
Assets				
Derivative assets	553	-	553	-
Liabilities				
Derivative liabilities	560	-	560	-

Fair value measurements of the Company's derivative assets and liabilities are classified under Level 2 because such measurements are determined using published market prices or estimates based on observable inputs such as interest rates, yield curves, and spot and future exchange rates. The carrying value of the Company's financial instruments is considered to approximate fair value, unless otherwise indicated.

9 Segment reporting

The Company reflects its results under a single reportable operating segment. The geographic distribution of its sales is as follows:

							Three-month period ended November 30, 2022
(thousands)	Canada $	United States $	France $	Italy $	Other $	Consolidation adjustment $	Consolidated $
Sales							
Customers -							
Domestic	6,918	46,416	9,187	16	1,605	-	64,142
Export	8,635	98	11,709	7,041	3,604	-	31,087
Intercompany (export)	14,469	3,861	23	358	16,521	(35,232)	-
	30,022	**50,375**	**20,919**	**7,415**	**21,730**	**(35,232)**	**95,229**

							Three-month period ended November 30, 2021
(thousands)	Canada $	United States $	France $	Italy $	Other $	Consolidation adjustment $	Consolidated $
Sales							
Customers -							
Domestic	7,168	17,779	10,865	361	5,262	-	41,435
Export	29,210	343	9,525	21,708	7,750	-	68,536
Intercompany (export)	8,638	2,024	31	6,025	10,489	(27,207)	-
	45,016	**20,146**	**20,421**	**28,094**	**23,501**	**(27,207)**	**109,971**

							Nine-month period ended November 30, 2022
(thousands)	Canada $	United States $	France $	Italy $	Other $	Consolidation adjustment $	Consolidated $
Sales							
Customers -							
Domestic	17,106	94,648	29,542	51	8,320	-	149,667
Export	25,732	428	25,144	39,550	14,767	-	105,621
Intercompany (export)	39,137	8,715	67	2,895	42,462	(93,276)	-
	81,975	**103,791**	**54,753**	**42,496**	**65,549**	**(93,276)**	**255,288**

							Nine-month period ended November 30, 2021
(thousands)	Canada $	United States $	France $	Italy $	Other $	Consolidation adjustment $	Consolidated $
Sales							
Customers -							
Domestic	16,188	59,546	30,779	491	16,630	-	123,634
Export	56,130	4,303	30,681	52,221	19,424	-	162,759
Intercompany (export)	30,976	6,398	43	13,057	31,851	(82,325)	-
	103,294	**70,247**	**61,503**	**65,769**	**67,905**	**(82,325)**	**286,393**

VELAN

10 Adjustments to reconcile net income (loss) to cash provided (used) by operating activities

	Three-months period ended		Nine-month periods ended	
(thousands)	November 30, 2022 $	November 30, 2021 $	November 30, 2022 $	November 30, 2021 $
Depreciation of property, plant and equipment	2,086	2,382	6,270	7,190
Amortization of intangible assets	540	556	1,664	1,565
Deferred income taxes	(1,042)	1,428	209	1,938
Loss (gain) on disposal of property, plant and equipment	12	135	278	(41)
Net change in long-term provisions and customer deposits	(3,993)	-	(5,566)	-
Net change in derivative assets and liabilities	368	162	(47)	(10)
Net change in other liabilities	471	255	(49)	333
	(1,558)	**4,918**	**2,759**	**10,975**

11 Changes in non-cash working capital items

	Three-months period ended		Nine-month periods ended	
(thousands)	November 30, 2022 $	November 30, 2021 $	November 30, 2022 $	November 30, 2021 $
Accounts receivable	(3,483)	11,677	(4,087)	18,865
Inventories	1,762	4,681	(2,138)	(33,807)
Income taxes recoverable	(1,753)	317	(4,443)	506
Deposits and prepaid expenses	(1,145)	699	(776)	(775)
Accounts payable and accrued liabilities	8,324	(7,263)	1,901	5,078
Income taxes payable	(192)	891	(1,979)	595
Customer deposits	(7,597)	(8,808)	1,910	10,145
Provisions	(501)	(3,706)	(2,871)	(5,378)
	(4,585)	**(1,512)**	**(12,483)**	**(4,771)**

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Velan Inc. is listed on the Toronto Stock Exchange under the symbol VLN

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